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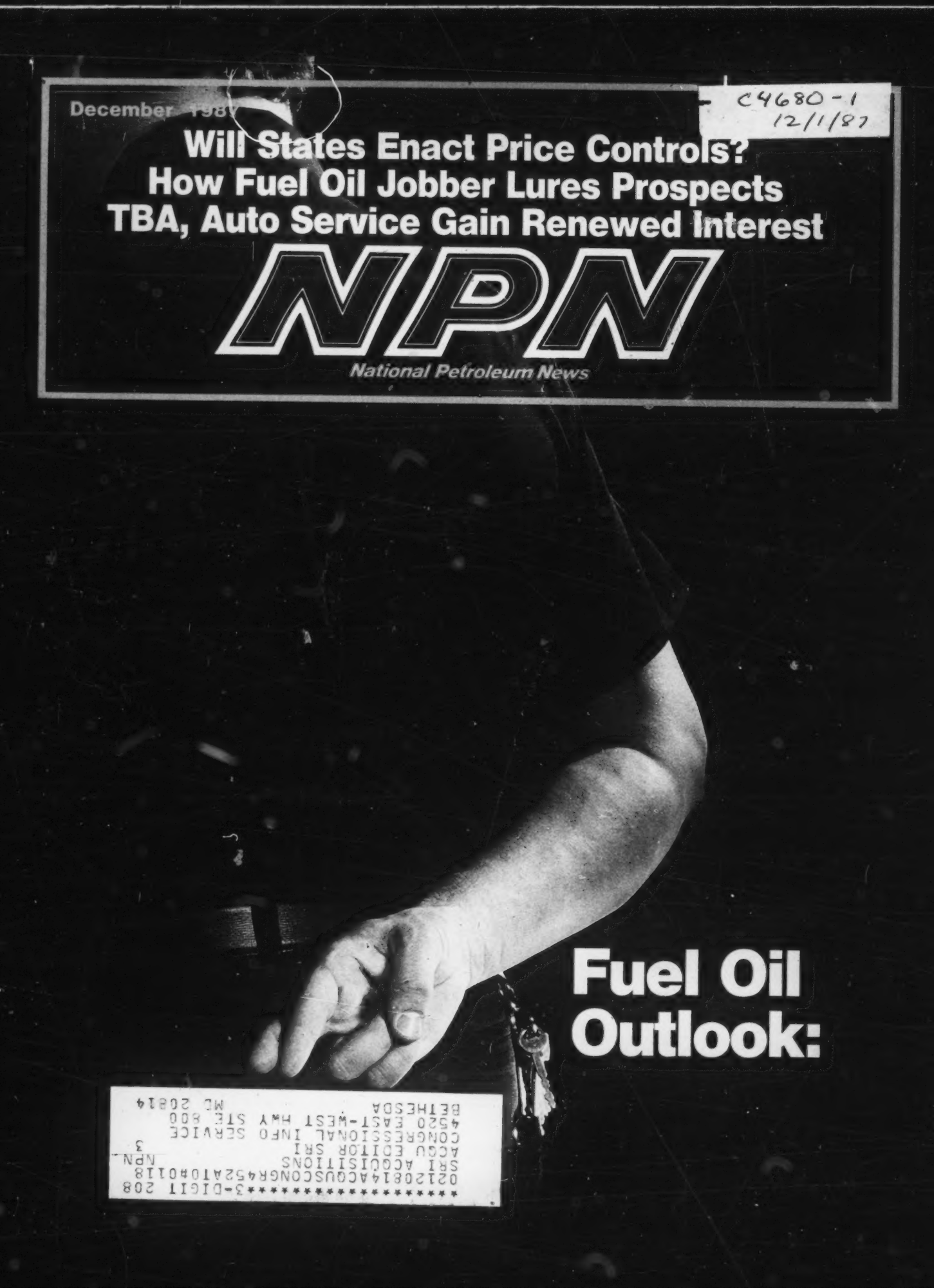
December 1987

Will States Enact Price Controls?
How Fuel Oil Jobber Lures Prospects
TBA, Auto Service Gain Renewed Interest

NPN

National Petroleum News



Fuel Oil Outlook:

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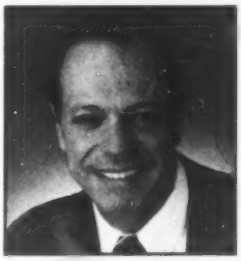

Editor's Viewpoint

Few, if any, marketers or suppliers look back with fond memories on federal price and allocation controls. The last thing most marketers want is the government telling them how to price and distribute product—and with good reason. During the '70s, for instance, price and allocation regulations aggravated and prolonged supply shortages and rising prices. Irony was not uncommon, as with jobbers in some areas being awash in product they were not allowed to sell while jobbers in other areas were crying for supply.

Early in the Reagan administration, controls were abolished. Since then market forces have determined pricing and distribution and, for the most part, everyone from oil companies to marketers to consumers is better off.

But experience is apparently not always the best teacher. The lead story in our news section (see page 27) reports that the U.S. Supreme Court is scheduled to rule on a case which will determine if state governments can, with no federal controls in place, impose their own retail price controls. If the high court permits this, we can expect some states to move quickly to enact them. A dozen states have already filed *amicus curiae* (friend of the court) legal briefs with the Supreme Court which support such controls.

Perhaps, however, it might not be such a bad thing after all. Eventually, the blunder would backfire. States with controls would find marketers and suppliers pulling up stakes and running to states with legislators who don't belong in rubber rooms, and consumers would be screaming about shortages and high prices.

One of the beauties of our federalist system is that by granting the states considerable independent rights, it creates comparisons. If one state operates well while another state is run poorly, the citizens—particularly business owners—of the badly managed state will at some point either change the makeup of their legislature or move to the other state.

It's been said that the best way to get a jackass to obey you is to whack him across his head with a two-by-four, just to get his attention. Maybe the havoc and public outcry in states which opt for controls would be the whack across the heads of the jackass legislators who voted to impose those controls.

—Frank M. Victoria

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Other things being equal, the fuel oil outlook is rather ho-hum. However, a Persian Gulf blowup or more chaos in financial markets could change things dramatically for marketers. **Page 32**

Is there a future in the plumbing business for a fuel oil marketer? Yes, if he's like Spartan Oil Co., a New Jersey firm attracting extra business with home remodelling ads. **Page 40**

Lured by the siren songs of self-serve pumpers, C-stores and the like, oil companies have neglected their "first love" —car service—in recent years. But the pendulum may be swinging back. **Page 42**

Third Quarter Profits Up, But Downstream Declines

Last year's third-quarter and nine-month earnings reports had oil company refining and marketing executives grinning. This year, after nine months, downstream folks are looking at across-the-board declines in both third-quarter and nine-month earnings.

Overall oil company profits, however, continue to recover, if somewhat spottily, following last year's crude price debacle. While nine-month results were mixed compared to 1986, third-quarter earnings were healthier for most companies than last year's third quarter, when prices really hit the skids.

Although investment analysts are urging caution, one firm (Salomon Brothers) is impressed by the oil companies' financial health, noting that the industry "has already made the financial and cost-containment adjustments needed to weather hard times."

Crude Profits Help Third-Quarter Nets

(Add 000,000)

Company	3rd Qtr. 1987	3rd Qtr. 1986	% Chng.	9-Mos. 1987	9-Mos. 1986	% Chng.
Exxon	$1,065.0	$1,055.0	0.9%	$3,285.0	$3,880.0	(7.2)
Mobil	319.0	182.0	75.3	875.0	1,204.0	(27.3)
Texaco	108.0	162.0	(33.3)	355.0	675.0	(47.4)
Chevron	245.0	208.0	17.8	787.0	801.0	(1.7)
Shell	420.0	133.0	215.8	795.0	628.0	26.6
Amoco	412.0	13.0	3069.2	983.0	582.0	68.9
Arco	315.0	102.0	208.8	884.0	551.0	60.4
Tenneco	(47.0)	(246.0)	—	—	(42.0)	(42.0)
Conoco	127.0	65.0	95.4	283.0	435.0	(34.9)
Phillips	31.0	13.0	(72.6)	2.0	2.7.0	(99.1)
Sun	137.0	69.0	98.6	265.0	315.0	(15.9)
Unocal	28.9	21.8	32.6	151.6	126.6	19.7
Marathon*	125.0	2.0	6150.0	458.0	(8.0)	—
Coastal	11.7	26.7	(56.2)	78.1	4.7	1561.7
Amer. Hess	38.6	41.9	(7.9)	309.4	(227.8)	—
Ashland**	66.0	34.0	94.1	133.0	209.0	(36.4)
Pennzoil	2.8	(10.1)	—	22.2	(1.1)	—
Kerr-McGee	18.8	(325.8)	—	66.3	(300.5)	—
Murphy	8.0	1.0	800.0	18.0	13.0	(38.7)
Am. Petrofina	21.2	5.7	271.9	69.7	(29.6)	—
Southland***	49.7	183.8	(73.0)	122.2	176.9	(30.9)
Crown Central	(3.1)	1.8	—	(21.0)	(9.7)	—

* Operating profits, pre-tax; ** Full year, fiscal ends 9/30; *** Includes Citgo.

Downstream Nets—Not A Domestic Plus Sign in Sight

Exxon						
Domestic	7	106	(93.4)	(5)	468	—
Foreign	53	357	(85.2)	165	1,166	(85.8)
Mobil						
Domestic	51	80	(36.3)	70	300	(76.7)
Foreign	20	243	(91.8)	163	740	(78.0)
Texaco						
Domestic	4	40	(90.0)	(63)	194	—
Foreign	27	172	(84.3)	118	641	(81.6)
Chevron						
Domestic	42	130	(67.7)	(15)	337	—
Foreign	(32)	77	—	13	306	(95.8)
Shell						
Domestic	68	78	(12.8)	132	284	(53.5)
Amoco						
Worldwide	97	133	(27.0)	147	325	(54.8)
Arco						
Domestic	30	94	(68.0)	100	305	(67.2)
Phillips						
Domestic	72	128	(44.0)	147	381	(61.4)
Foreign	(13)	(2)	—	(2)	(13)	—
Sun						
Domestic	21	29	(27.6)	24	208	(88.5)
Foreign	4	8	(50.0)	17	5	240.0
Amer. Hess						
Domestic	2	51	(96.1)	177	(314)	—

• TRENDS

Is Another Oil Price Collapse in the Cards?

That U.S. suppliers and marketers can ill afford another collapse of oil prices as occurred in the first half of 1986 is something just about everybody agrees on. Yet there is not only talk that such a situation may recur this winter or early spring, it's gaining credibility—or, at least, plausibility—which is disheartening because domestic and foreign industries are just beginning to recover from last summer's pits.

As in late 1985 and early 1986, the Persian Gulf War, the intransigence of the more volatile members of the Organization of Petroleum Exporting Countries and the unquestioned wallop that Saudi Arabia has on world marketplaces are the root causes of the new fears.

There's a difference this time around, however. In the winter and spring of 1985-86, the Saudis opened the floodgates and bathed the world in 3-million b/d to 4-million b/d more crude than it could possibly cope with. Its objective was to teach the other members of OPEC to better toe the line because it was tired of being the balancing rod.

This time, Iran is in a direct confrontation with the Saudis as well as Iraq. The stepped-up pace of the Gulf war isn't helping matters. Since Iran and Iraq are dependent on their oil revenues to defray the costs of their eight-year-old conflict, the fear is that the Saudis may re-open the flood gates, wreck the economies of the Iranians and the Iraqis—and most of the world—to force a negotiated settlement of the Gulf War.

That, in long term, would diminish the threat that Iran portends for the Saudis and possibly eliminate it entirely by bringing about restoration of a government more to the liking of the western cultures.

The fourth-quarter outlook is not particularly inspiring and might even be tilting already in the direction of supply and price problems in the first half of 1988 [*NPN*—Oct. '87 p14].

Crude, which struggled up from the $11 bbl. bottom of last summer, was trying hard to reach the $20 bbl. level it desperately needs for a better looking 1988. It was treading water in the fall and product prices also had question marks on them.

Many independents and major companies are concerned. For example, independent John Deuss, the Dutch-born broker who started up Atlantic Refining & Marketing on the East Coast not quite two years ago, and a man known for his lines of communication into the Middle East, says a sharp drop in world crude prices is inevitable if Saudi Arabia boosts production unmercifully. He says it can be as much as $5 bbl. to $10 bbl; in other words, $10 crude again. That would delight consumers with cheap gasoline but oh, at what a cost to the industry! In similar vein, Texaco's James W. Kinnear told a New York audience of business men that "in terms of energy independence, America is once again looking right down the barrel of a gun."

A reminder of the disastrous aspects of the 1986 collapse of the marketplaces is contained in an updated analysis by New York brokerage firm Salomon Brothers, "Proved Petroleum Reserves of 30 Large Companies, 1979-1986." It states:

- U.S. crude reserves fell 5% in 1986, the sharpest one-year decline in recent years;
- Natural gas reserves dipped 1.7% at the same time;
- The 30 companies involved in the survey replaced only 41% of their U.S. crude production and only 48% of their gas production;
- Outlays for exploration, production and development tumbled 47% in 1986 versus 1985, and 58% from the 1981 peak of $37-billion.

Virtually all of the numbers in the Salomon Brothers study are negative. For marketers, the wounds of 1986, the diminished cash flows against big ticket bills and the painful slowness of recovery in 1987 are still too fresh in memory to be set aside or forgotten. Yet, there is an outside chance that it could happen.

— J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

SEPTEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.000	$0.940	$0.990	$1.136
Regions:				
Northeast	1.030	0.955	1.001	1.156
North Central	1.011	0.967	1.007	1.141
South	0.995	0.923	0.983	1.129
West	0.975	0.928	0.974	1.114

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	10/30/87	10/31/86
Gasoline (total)	219,604	221,823
Gasoline (unleaded)*	130,483	121,172
Jet Kerosine	42,512	43,202
Distillates	124,588	151,214
Residual	46,371	47,869

**Included in gasoline total.*
Source: American Petroleum Institute.

Stage II's Hidden Costs

As part of its anti-Stage II campaign, the Southern California group has also done an analysis of what it estimates typical vapor recovery costs to be (in addition to equipment and installation costs) for both dealers and motorists at an average gasoline station. Here's the association's cost breakout:

- Extended time to dispense gasoline: Estimate at 45 minutes per day per nozzle, at $15 per hour equals $4,106.25 nozzle/year. "Due to the difficulty handling the nozzles, making proper interface, the slower fill rates (10 vs. 15 gpm), frequent shutoffs, etc., refueling takes 50% longer. . . Manhours for full-service (20%) are paid by station operator; self-serve costs the motorists time," the study says.
- Financial impact on the elderly and disabled (unable to use Stage II for self-service): "If they use 500 gal. per year at the full-service prices, 30¢ per gal. higher, that costs them $150/year. If this affects 5% of motorists, the cost would be $1,642.50 nozzle/year."
- Inspection time: "System operators have been told to inspect systems every few hours. . . Most do it daily. At 2 minutes/nozzle, a 10-nozzle station would cost $5 per day. Another 10 minutes per day is spent draining nozzles, straightening hoses, etc. for a total of $273.75 nozzle/year."
- Customer assistance: "At split-island stations and others where assistance is available, self-serve customers ask for or require help to get the nozzles properly interfaced and running. Just 10 minutes a day at $15 per hour equals $91.15 nozzle/year.
- SCAQMD style fees and enforcement penalties: "Estimated at $117, plus $6 in settlement dollars comes to $23 nozzle/year (San Diego is twice that)."
- Insurance costs and customer adjustments: "Nozzles stuck in fill-pipe,

(Continued on Page 30)

Stage II, Continued. . .

face-plate material clogging fuel lines, gasoline spitbacks on clothes and body, slips and falls raise insurance costs and result in out-of-pocket adjustments estimated at $20 nozzle/year."

• Spare parts, documentation, records: "System operators must, for their own protection, keep spare parts for quick repairs, take time for purchasing, records, payments and documentation storage relating to system operation. Estimated cost is $10 nozzle/year."

• Nozzle theft and driveaways with nozzles in fill-pipes: "Estimate is that 1% of nozzles could be involved each year, costing about $250 to replace the whole assembly, less the $50 average black market resale price of the "hot" nozzles. Estimated cost is $2 nozzle.

Total estimated cost to the dealer per nozzle per year is $1,241.25, according to SCSSA. Estimated annual cost to motorists per nozzle/year is $4,927.50. Total cost per nozzle/year is $6,168,75.

IPAA Outlook Bland for 1987, Blander for 1988

Independent Petroleum Assn. of America, in its traditional fall forecast, is neither optimistic nor pessimistic about the remainder of this year and the outlook for the New Year just down the road.

Domestic demand for petroleum products is expected to grow only 1.3% in 1987 and less than 1% next year. In other words, nothing really to get excited about or dismayed either.

U.S. crude oil production is expected to decline another 130,000 b/d for the third year in a row. There'll be an increase in imports next year so that they'll average 6.8-million b/d. In round terms, up an average of 322,000 b/d. Gasoline and distillates each will show an increase of about 3% in 1988, the association says. Residual fuel's slump will continue this year and next.

Although it doesn't say so, the association's projection is based on no abnormal disruptions in oil activities around the world. It predated the mid-October military activity in the Persian Gulf. NP

Neither Sunshine Nor Gloom Are in the Offing

(thousands of b/d)

	1st Q	2nd Q	3rd Q	4th Q	F.Y. '88	F.Y. '87*	% Chng
TOTAL DEMAND							
Motor Gasoline	6,826	7,448	7,463	7,221	7,240	7,180	.03
Aviation Fuels	1,390	1,385	1,450	1,455	1,420	1,380	2.3
Mid. Distillates	3,456	2,868	2,717	3,208	3,062	3,038	.08
Residual Fuel	1,285	1,120	1,110	1,185	1,175	1,250	(6.0)
Miscellaneous	3,607	3,611	3,910	3,783	3,728	3,642	2.3
Subtotal	16,564	16,432	16,650	16,852	16,625	16,490	.08
Exports	797	745	709	773	756	763	(.09)
Total Demand	17,361	17,177	17,359	17,625	17,381	17,253	.07
TOTAL SUPPLY							
DOMESTIC PROD.							
Crude Oil	8,245	8,182	8,144	8,108	8,170	8,300	(1.6)
Natl. Gas Lqds.	1,583	1,564	1,539	1,563	1,562	1,583	(1.3)
Subtotal	9,828	9,746	9,683	9,671	9,732	9,883	(1.5)
IMPORTS							
Motor Gasoline	368	446	450	405	417	402	3.7
Aviation Fuels	58	61	62	59	60	45	3.3
Mid. Distillates	265	208	273	275	255	263	3.0
Residual Fuel	571	494	504	547	529	571	(7.4)
Miscellaneous	608	681	706	719	680	622	9.3
Subtotal	1,870	1,890	1,995	2,005	1,941	1,903	2.0
Crude Oil	4,261	4,736	5,270	4,983	4,814	4,530	6.3
Total Imports	6,131	6,626	7,265	6,988	6,755	6,433	5.0
Other Supply	872	883	796	878	895	902	(5.1)
TOTAL SUPPLY	16,831	17,255	17,744	17,537	17,343	17,218	0.7
Refinery Inputs	12,547	12,978	13,370	13,135	13,008	12,862	1.1
ENDING INVENTORIES (million bbl.)							
Motor Gasoline	237.1	230.4	229.9	229.4	229.4	232.3	(1.2)
Aviation Fuels	49.3	48.1	49.2	48.6	48.6	48.7	—
Mid. Distil.	108.0	109.5	138.7	147.0	147.0	149.6	(1.7)
Residual	39.9	41.0	42.9	44.5	44.5	45.8	(2.8)
All Other	250.1	264.3	267.8	253.1	253.1	255.5	(0.9)
Subtotal	684.4	693.3	728.5	722.6	722.6	731.9	(1.3)
Crude Oil	335.4	333.6	333.8	331.6	331.6	336.1	(1.3)
TOTAL STOCKS	1,019.8	1,026.9	1,062.3	1,054.2	1,054.2	1,068.0	(1.3)

*Estimated

Source: Independent Petroleum Assn. of America, Supply & Demand Committee Report, October 1987.

Fuel Oil Outlook: Stable—Unless. . .

It is the unpredictables, such as Persian Gulf developments and the stock market crash, which could most affect what would otherwise be another round of bland projections for the fuel oil market.

Even the vagaries of weather would pale next to a sudden loss of Middle East oil. There should be adequate supplies around the world, even with an Iranian-Iraqi cutoff—but traders, speculators and the futures markets have been shooting holes in past track records and rationality. And the nose dive on Wall Street heightens uncertainty. The full impact of the crash on business and consumer confidence may yet be unknown.

Barring such unforeseeables, however—and assuming that the weather behaves itself and is normal in degree days and seasonal fluctuations—fuel oil supply, demand and prices can be expected to be stable for the rest of this winter and throughout 1988. Margins may be thinner, though. Some marketers are saying that they may be down as much as a dime a gallon by spring.

The Numbers

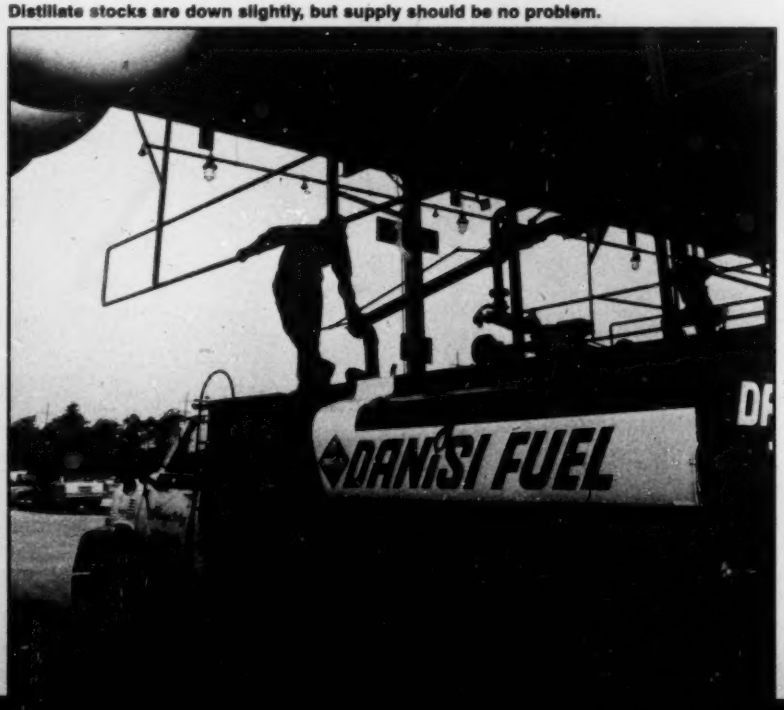
Industry people contacted by NPN consistently used the word "stable" in their fuel oil forecasts for the beginning of the new year. According to Bernard Smith, executive vice president of the New England Fuel Institute (NEFI), a graph of supply and demand would show a straight line from September to June, "unless something catastrophic happens."

That same characteristic seems to apply when looking at the figures. The government's Energy Information Administration (EIA) projects fuel oil production and demand to remain fairly even for the next six months, adjusting itself only for seasonal fluctuations.

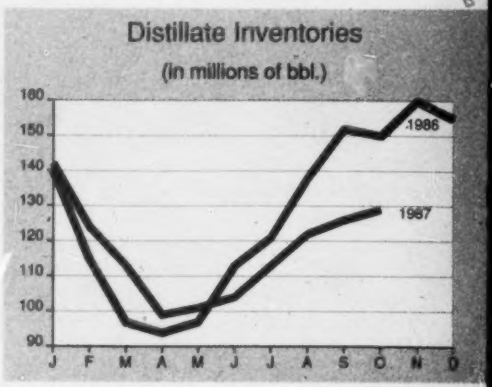
At the end of the second quarter of this year, domestic fuel oil production stood at 2.6-million b/d and it should return to about that same level (2.65-million b/d) by the second quarter of 1988, EIA says. In between, production should increase only 140,000 b/d to a maximum of 2.79-million b/d in the last quarter of this year. Comparing matching quarters between 1987 and 1988, EIA sees an increase of only 50,000 b/d (See chart).

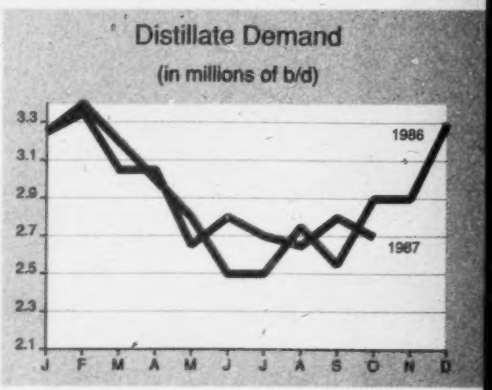
Stocks of distillates reportedly have been down somewhat heading into the early part of the heating season, but not by much. EIA says stocks in July were down by 3% nationwide compared with last year. It further predicts stocks to remain an average 3% under last season for the rest of this year and to fall only to 5% in the first quarter of 1988.

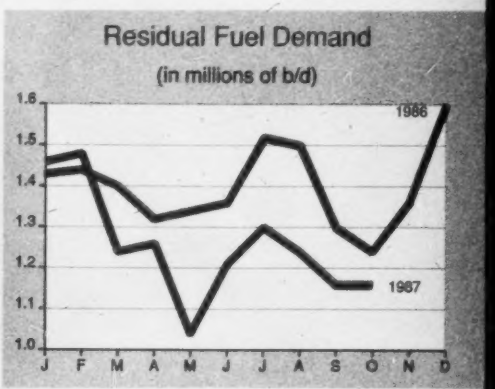
By Howard Shingle
Staff Reporter



Distillate stocks are down slightly, but supply should be no problem.







The American Petroleum Institute (API), however, reports distillate stocks at 128-million barrels at mid-October, down 16% from the same time a year ago. The EIA-API differences are easily explainable, however, because their data bases and collection procedures, while similar, are not numerically compatible.

API adds that "most distillate demand during the heating season. . . is met from current refinery production." For example, refinery production provided 87% of distillates supplied during last year's heat-

ing season while inventories supplied 8% and imports the remaining 5%, API says.

Even so, EIA, NEFI and most marketers believe supply will not be a problem in the coming year, unless there is a major disruption in the supply of imported oil. As NEFI's Smith puts it, the situation is like a tug-of-war. When one side gives, the other side is immediately affected.

API's director of statistics, Edward Murphy, agrees. "Supply interruptions, such as cutoffs of petroleum imports, could bring about major changes in the supply/demand equation. Similarly, as is always the case, spot shortages could crop up in various parts of the country if breakdowns in the distribution system were to result from such phenomena as snow storms, fires or floods. However, absent these type of problems, there should be more-than-adequate supplies of home heating oil," he says.

In its latest forecast on fuel oil demand for the coming year issued in late October, the Independent Petroleum Assn. of America (IPAA) predicts demand for all products will average to 16.5-million b/d for 1987, a 1.3% increase over 1986. IPAA foresees demand increasing a mere 1% next year.

Overall distillate demand will grow as diesel usage gains and replaces what has been lost in residential heating, IPAA says. Residual fuels, on the other hand, will continue to fall as has been the case for the past year or two. IPAA sees an overall decline of 12% for 1987, and an additional 6% loss in 1988.

Fuel oil prices also are expected to remain stable into the new year, other than for normal seasonal adjustments. EIA's national price average sees no more than a 5¢ a gal. increase in wholesale prices through the end of 1988 for No. 2 fuel oil. Retail prices are expected to see no more than a 10¢ a gal. increase, EIA predicts, to 88¢ a gal. as a national average by the end of next year.

Prices, however, are volatile and can change practically overnight. During the third week of October, news stories on the Iran-Iraq war and the shelling of two Iranian oil platforms by the U.S. caused a "sharp" increase in wholesale prices, according to many marketers.

World and market conditions interact on prices, NEFI's Smith says. An extended disruption in supply from the Persian Gulf, for example, or a 10- to 15-day cold snap in the weather can cause price spikes and spot shortages as have been seen in the last year or so.

The Regional Scene

Fuel oil marketers must face the new year at their own level: regionally and even locally. National averages for prices, production and demand may not apply to an individual company.

In the Northeast, for instance, Smith says retail prices for No. 2 heating oil will probably range about 10¢ a gal. higher than the EIA forecast for the national average. NEFI sees a 5% price increase this season, possibly hitting 10% during peak periods.

The increases are partly due to a wholesale price increase this past summer that hasn't been passed on to customers yet, Smith says. Full-service fuel oil dealers also need a few extra cents per gallon to cover overhead and pay for and train technicians, he notes. However, he adds, competition, which is "so keen" in New England, will be a force acting to keep prices down.

"Inventories are more than adequate" at this time in the Northeast, Smith says. He points out that a chilly Spring this year and dealer moves to deplete their inventories caused many customers to close out the season with nearly full tanks. As a result, most of that fuel oil was still in customer tanks when the current season got underway, thus deferring September-October drawdowns until November and early December.

In the Central-Midwest, David Mangelsdorf of Home Service Oil Co., Barnhart, Mo., has an optimistic view of the heating season. The past two seasons were warm in the St. Louis area, but by late October this year there had been more than 300 degree-days already.

Despite the early demand for home heating oil though, Mangelsdorf is reluctant to raise retail prices just yet. Home Service Co. has a small competitor that regularly prices product 5¢ a gal. below it, he explains, and as in most places the company's prices reflect its competition.

Margins will be a little tighter this year, probably around a quarter a gallon, Mangelsdorf predicts. That figure is down from between 35¢ and 40¢ a gal. in the recent past, he adds.

There was a "severe jump" in rack prices following reports of fighting in the Persian Gulf, he says, but he expects most of those type of price spikes to be short-lived, based on "psychological shortages." Not much of the fuel oil used in the Midwest comes from crude oil from

Federal Data: 1986 A Good Year For Distillates

No one can say for sure whether the collapse of prices in 1986 had anything to do with it, but distillate sales in that 12-month period didn't do badly at all.

The federal government's annual report on sales and deliveries of distillates, issued in late October, said sales totaled 45.1-billion gal. in 1986, up a neat 4.8% over 1985's 43.0-billion gal.

The recovery was so strong that it came within a stone's throw of 1984's total of 45.6-billion gal. The distillate total, however, includes the diesel cut for highway use, which continues to grow while demand for residential use continues to decline.

The 1985 summary was dismal on its face [*NPN*—Dec. '86, p39]. It showed that only 12 states had distillate increases that year while the remaining 38 were negatives. The 1986 summary is almost an exact reversal—39 states were up and 11 were down.

The 1986 losers were Vermont, Delaware and West Virginia on the Atlantic Coast; Kansas, Kentucky and Missouri in the midlands; Arkansas and Texas in the southern tier; Montana and Wyoming in the Rockies and Alaska in the far north.

Percentages are often deceiving but the biggest declines were recorded in Alaska (17.7%), West Virginia (21.8%) and Montana (34.8%). The biggest increases were in Utah (28.1%), Oklahoma (25.5%), South Dakota (25.1%), Maine (22.8%) and Rhode Island (20.7%). The Catch-22 in these percentages, however, is that New York's increase of 17.8% entails roughly 500-million gal., which is almost double the amount consumed in Utah all year.

Omitted from the table on the opposite page are the sales totals for oil company use, electric utilities, railroads, vessel bunkering, military, off-highway and miscellaneous items. These sales are included in the totals for the U.S. in the last column, however.

For reference, the government defines residential use as primarily private households; commercial use as apartment buildings, motels, laundries and nonmanufacturing facilities; industrial as mines, smelters and manufacturing/processing facilities; farm as agricultural machinery, crop drying, smudge pots and some space and water heating; and highway consumption as motor fuel for trucks, buses and some passenger cars.

Distillate Sales by States and Markets in '86

(millions of gal.)

	Residential		Commercial		Industrial		Farm		Highway		U.S. Totals*		% Chng.
	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986	'86 vs '85
New England	1,909	2,074	540	663	106	135	15	15	648	722	3,365	3,768	12.0%
Connecticut	449	548	163	167	40	41	X	X	184	179	852	948	11.3
Maine	225	269	45	74	10	11	4	4	126	140	426	523	22.8
Massachusetts	827	875	262	316	33	57	2	2	245	267	1,458	1,606	10.2
New Hampshire	149	153	25	42	7	7	2	2	42	51	237	266	12.2
Rhode Island	157	142	20	38	8	9	X	X	12	45	203	245	20.7
Vermont	102	87	24	25	10	10	6	6	39	40	188	181	(3.7)
Mid-Atlantic	3,570	3,618	1,170	1,615	383	408	143	135	2,043	2,226	7,949	8,822	11.0
Delaware	61	50	15	12	9	9	7	8	51	53	151	148	(2.0)
District of Columbia	23	19	34	47	X	X	X	X	21	21	109	127	16.5
Maryland	231	228	89	73	43	44	22	21	238	275	786	790	—
New Jersey	832	817	259	421	69	97	12	22	446	451	1,788	2,085	16.6
New York	1,426	1,612	545	779	110	68	55	46	519	615	2,766	3,258	17.8
Pennsylvania	997	893	227	284	152	189	47	38	770	811	2,348	2,413	2.8
South Atlantic	578	664	541	526	302	332	297	343	2,736	2,835	5,429	5,781	6.5
Florida	26	22	168	162	40	42	95	133	707	681	1,308	1,399	7.0
Georgia	16	17	71	47	46	50	73	99	665	711	1,007	1,055	4.8
North Carolina	225	236	122	114	65	85	56	57	513	549	1,083	1,220	12.7
South Carolina	53	56	39	33	37	25	23	23	293	294	508	510	—
Virginia	236	307	113	134	60	89	47	27	438	469	1,091	1,260	15.5
West Virginia	21	26	28	35	55	42	3	5	121	132	431	337	(21.8)
Total PAD 1	6,057	6,357	2,251	2,804	793	875	455	494	5,427	5,783	6,743	18,371	9.7
Illinois	97	98	170	89	67	135	155	197	587	695	1,360	1,501	10.4
Indiana	109	129	113	82	113	122	67	101	693	681	1,275	1,346	5.6
Iowa	61	62	48	30	11	20	178	230	298	288	649	686	5.7
Kansas	3	1	30	15	9	20	121	147	261	253	609	599	(1.6)
Kentucky	35	30	65	46	176	154	42	38	329	368	907	869	(4.2)
Michigan	255	263	101	132	64	63	79	98	455	478	1,080	1,152	6.6
Minnesota	164	179	117	48	34	34	138	194	289	288	821	821	—
Missouri	35	37	63	66	39	30	99	76	448	473	819	784	(4.3)
Nebraska	15	13	34	15	9	8	154	163	186	189	509	508	—
North Dakota	48	47	21	14	12	13	96	113	93	87	314	320	1.9
Ohio	191	205	87	95	109	129	59	72	831	798	1,511	1,526	—
Oklahoma	4	1	30	13	88	30	75	51	388	389	788	587	25.5
South Dakota	32	46	12	12	3	4	65	100	95	90	211	264	25.1
Tennessee	11	7	132	63	55	50	47	44	513	527	930	951	2.3
Wisconsin	275	287	136	77	17	26	99	99	350	354	949	945	—
Total PAD 2	1,334	1,405	1,159	798	804	837	1,475	1,722	5,817	5,950	12,712	12,859	1.2
Alabama	X	1	38	31	29	70	35	25	358	368	602	628	4.3
Arkansas	X	X	34	6	8	12	143	128	288	295	533	507	(4.9)
Louisiana	X	X	109	127	52	48	31	112	326	349	1,100	1,208	9.8
Mississippi	X	X	31	14	28	12	45	83	280	288	554	543	(2.0)
New Mexico	X	1	13	13	62	60	9	23	178	183	303	359	18.5
Texas	1	X	279	170	285	256	229	209	1,550	1,437	3,336	3,130	(6.2)
Total PAD 3	3	3	504	360	463	456	493	581	2,980	2,920	6,428	6,375	—
Colorado	4	2	25	16	11	17	46	60	199	187	379	410	8.2
Idaho	23	25	14	11	9	14	45	54	97	98	218	239	9.6
Montana	13	14	32	16	10	20	88	45	107	105	430	281	(34.7)
Utah	3	3	20	36	25	35	6	13	132	139	235	301	28.1
Wyoming	2	1	16	15	28	37	16	16	116	102	298	275	(7.7)
Total PAD 4	45	45	107	94	83	122	202	189	651	632	1,561	1,505	(3.6)
Alaska	52	46	37	36	27	20	X	X	107	97	412	339	(17.7)
Arizona	X	X	19	16	36	40	15	30	268	280	410	468	14.1
California	6	10	141	243	125	237	380	203	1,387	1,571	2,943	3,163	7.5
Hawaii	X	X	5	8	3	5	13	13	19	20	188	198	5.3
Nevada	11	11	13	21	34	23	9	7	93	97	218	234	7.3
Oregon	95	88	55	58	33	23	31	49	244	245	619	624	—
Washington	124	132	171	104	39	44	28	52	287	332	825	989	19.9
Total PAD 5	289	288	442	487	298	391	476	355	2,404	2,642	5,615	6,014	7.1
Total U.S.	7,728	8,098	4,463	4,542	2,441	2,682	3,102	3,341	17,280	17,927	43,059	45,124	4.8%

*Totals also include oil company use, electric utilities, railroads and vessel bunkering, military, off-highway and miscellaneous uses.
X equals less than 1-million gal.; totals may not add up due to rounding off of numbers.
Source: Energy Information Administration, "Petroleum Marketing Monthly," July issued in October.

Storage tank regs and insurance will be major issues.

the Gulf, he explains. In the short term, Mangelsdorf expects retail prices to rise by normal seasonal averages.

Further north, in Michigan, the outlook is similar. The Michigan Dept. of Commerce and Public Service Commission released its winter outlook in October.

"With normal temperatures and a stable economy, total fuel oil demand is projected to rebound to average consumption levels" of about 96-million gals. a month, the report predicts. As in the St. Louis area, warmer than average temperatures in Michigan last season produced significantly lower sales in No. 2 home heating oil.

Regional refinery stocks are expected to "continue a trend of declining levels," down only slightly though at about 2.6% below a year ago, with some increase expected after the first of the year, the outlook notes. Still, supplies are not foreseen returning to the healthy 1985 average levels, the report says.

Home heating oil prices this season are projected to open at about 80¢ a gal. or just slightly above where they closed last season. "Only normal seasonal fluctuations throughout the coming winter heating months" are seen for retail prices, the outlook predicts.

In the Pacific Northwest, the outlook is rather "conservative," according to Jeff Grant, the executive director of both the Oil Heat Institute of Washington and Oregon.

A fairly warm Winter and Spring had left demand flat last season and little has changed so far, he says. For this season, demand and inventories are described as "good."

Legislative Problems

Almost as unpredictable as the weather and Mideast events is what will happen in domestic legislatures. Storage tank regulations and liability insurance are seen as the two most important issues facing fuel oil marketers in the coming year.

The U.S. Environmental Protection Agency (EPA) was scheduled in November to review the exemption of fuel oil storage tanks from federal underground tank regulations.

Bill Kenny, president of Meenan Oil Co. in New York, says the oil heat industry is in "enormous danger" if federal regulations require upgrading or replacing underground fuel oil tanks.

Kenny says between 24% and 30% of the fuel oil tanks in the U.S. are underground as opposed to basement or aboveground tanks. Legislation affecting tanks could just push more homeowners to converting to natural gas heat, he says.

Kenny is co-chairman of the Oil Heat Task Force, an *ad hoc* coalition of fuel oil marketing companies and associations. The Task Force recently released its independent study on fuel oil tanks. The study found marked differences between fuel oil and gasoline and the effects of product leaks. The Task Force is using the study to persuade EPA to recommend a continuation of fuel oil's exemption from tank regs.

NEFI's Smith says, "Unfortunately, lawmakers have roped all petroleum products into one category." Fuel oil is "a minimum risk product in most areas," he adds. Most fuel oil "leaks" are actually spills and no amount of tank legislation will prevent that, he says.

Mangelsdorf in Missouri says, "Their (EPA's) part in how we do business is becoming more and more powerful." He believes the EPA may require marketer inventory control or regular reconciliation of customer tank levels as a method of monitoring for leaks. Fortunately, he says, there are not many underground fuel oil tanks in the Midwest.

Petroleum Marketers Assn. of America (PMAA) and others have stressed repeatedly, however, that the "K factor" (a formula used to determine when customers will probably need more fuel) in automatic deliveries provides dealers with an effective measurement tool that would make unusual conditions, such as excessive consumption or leakages, quickly apparent.

The problem with liability insurance is the lack of pollution coverage. It is nearly impossible to get, especially at a reasonable price, says Smith. NEFI is working to get the federal government to place minimal limits on how much liability coverage a marketer must carry.

Once limits are set, NEFI plans to work on getting the government to either pick up the cost of the minimum coverage it imposes and let marketers pay the rest, or pick up the cost of coverage beyond the minimum level that it would require a marketer to purchase, Smith says.

New Customers

Finding new customers is the key concern among fuel oil jobbers—the future of their businesses depends on it.

On the Upper Atlantic seaboard, the citadel of fuel oil heating, the future looks

Fuel Oil Supply and Demand (in millions of barrels)

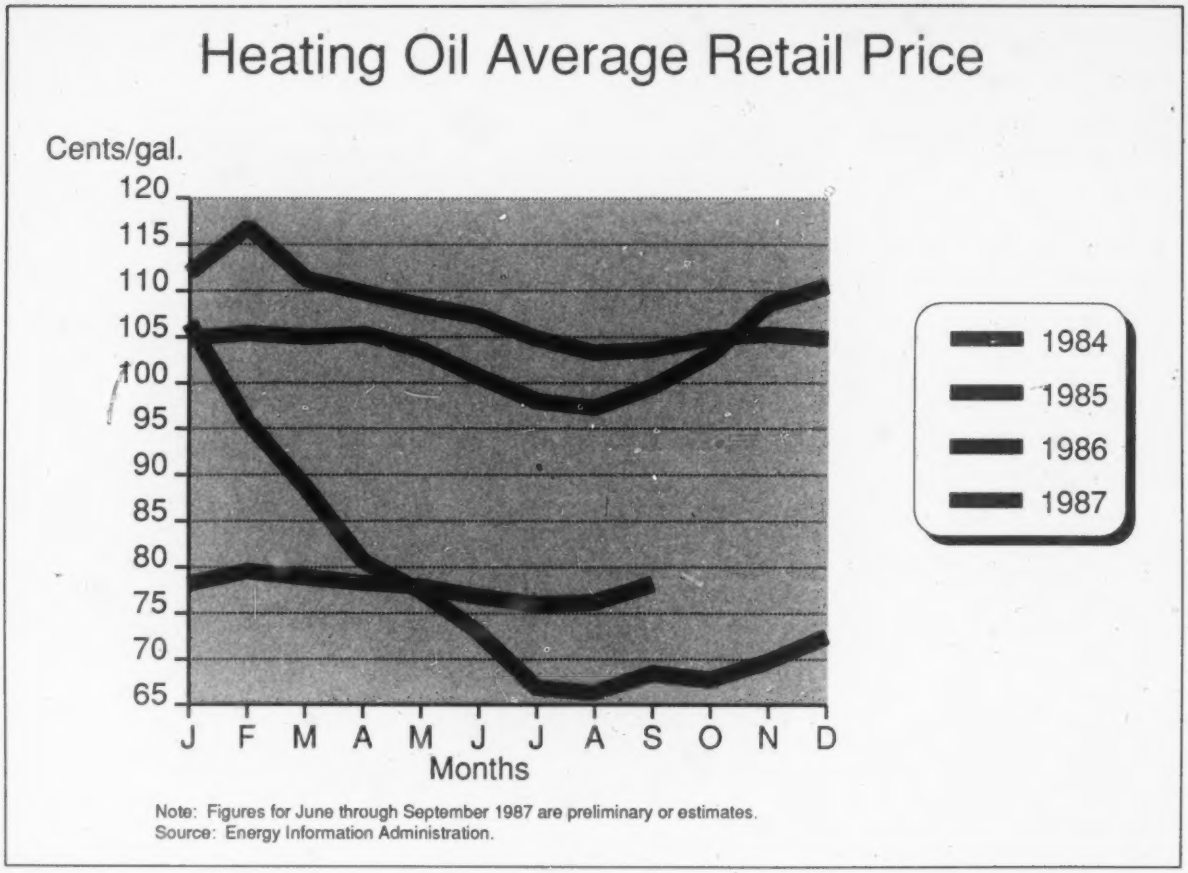
	1987				Projections 1988	
	1Q	2Q	3Q	4Q	1Q	2Q
Production (b/d)	2.58	2.60	2.77	2.79	2.63	2.65
Net Imports (b/d)	0.12	0.14	0.21	0.32	0.24	0.19
Product Supplied (b/d)	3.20	2.80	2.58	3.03	3.37	2.79
Ending Stocks (total)	110.00	104.60	142.10	150.20	104.50	108.60

Source: Energy Information Administration, "Short-Term Energy Outlook," dated June, published in late September.

Fuel Oil Prices (cents per gal.)

	1987				Projections 1988			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
PRICES (per gal.):								
Wholesale	.50	.50	.50	.51	.55	.55	.54	.54
Retail	.79	.77	.78	.83	.87	.85	.85	.86
Residual Fuel Oil	.41	.41	.40	.42	.44	.43	.43	.44

Source: Energy Information Administration, "Short-Term Energy Forecast," dated July 1987, published in mid-[illegible] past



Note: Figures for June through September 1987 are preliminary or estimates.
Source: Energy Information Administration.

good. Smith says fuel oil is getting a larger share of the new home construction market than it has in the past 25 years.

He estimates fuel oil's share stands at about 25% of new construction business in the Northeast. He adds that there have been a lot of conversions from electricity in that region as well, mostly because of the high cost of electric heat and the relatively low cost of fuel oil.

America's heartland, however, is "a tough market for fuel oil," says Mangelsdorf. We have "a real battle on our hands." Homeowners and construction companies are so "brainwashed" into thinking only of natural gas heat that they don't even know things like oil-fired water heaters exist, he says.

The new home construction market is virtually closed for fuel oil marketers in his part of the country, Mangelsdorf notes. His company's battle plan is to keep those customers it already has. A full-service equipment service shop was recently added to his company specifically to maintain current customers.

To a very large extent, new fuel oil customers will come from competitors or be picked up through acquisitions. Possibly the biggest fuel oil story this past year, in fact, was Petroleum Heat & Power's acquisition of Whaleco Oil Co. [*NPN*—Sept. '87, p18].

Petro, Stamford, Conn., was already doing more than 300-million gals. a year of retail fuel oil business at the time it bought Whaleco. The purchase secures Petro's position as the No. 1 fuel oil retailer in the country.

Whaleco's president Peter Carini explains the sale of the company by saying that the only growth to be achieved in fuel oil sales is through acquisition of smaller companies. He also warns, however, that such cannibalism can be costly in that it ties up capital.

There probably will be plenty more buying and selling of companies going on in the year to come, especially along the East Coast. That area is loaded with independent entrepreneurs and has seen a lot of changes in the recent past [*NPN*—Aug. '87, p30].

That leaves persuading fuel oil customers to switch companies as the way to increase market share. Tim Cronin, Cronin Oil Inc., West Allis, Wis., has embarked on an ambitious telemarketing program that has seen his new customer list grow by 520 homes—all of which he has taken away from his competitors. Cronin says he plans to increase his market share to 25% of the Milwaukee area [*NPN*—Nov. '87, p56].

Promotional Efforts

Telemarketing as a promotional tool to secure and increase customer lists was a topic of discussion at the PMAA's Fifth National Oil Heat Marketing and Promotional Conference in Toronto in August.

At the conference, fuel oil marketers were urged to promote their companies and support efforts to promote the fuel oil industry. The Metropolitan Energy Council (MEC) of New York, the premier organization for promoting fuel oil heat, provides institutional advertising materials to marketers and fuel oil associations.

James Devine, MEC secretary, notes that the monies being spent on fuel oil advertising and promotion represent only a fraction of that being spent by natural gas and electric utilities. Yet, he reports, that is changing. Tens of thousands of dollars are budgeted in virtually every region of the country to promote fuel oil in television and radio ads.

The Pacific Northwest will see its biggest promotional efforts this season after relative inactivity, Devine says. Between $100,000 and $150,000 is being budgeted by Washington and Oregon alone. Across the country in the Northeast, virtually every state association from Maine to Virginia to Pennsylvania has budgeted promotion money.

So the word is getting out that fuel oil heating is not dead. As long as the weather, the government and the Mideast play along, smooth sailing should be the immediate outlook for the industry. **NPN**